

THE DIRECTOR OF CENTRAL INTELLIGENCE

WASHINGTON, D. C. 20505

National Intelligence Officers

NFAC No. 7069-81

4 November 1981

MEMORANDUM FOR: Chairman, NIC

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SUBJECT : Anticipating the Unexpected

1. Constructing imaginative political discontinuities and assessing their implications is relatively easy to do for individual countries, and even for regions. You change a political alignment here or a government structure there and, presto, you have an interesting new situation. In the global social-economic sphere, however, discontinuities that truly alter the environment are not easy to dream up. If we exclude such contingencies as a massive Saudi oil supply interruption -- which would be quickly transformed into a major military situation -- most troublesome social-economic developments are more in the nature of combinations of trends than discrete events. Moreover, the international system is, by and large, well equipped -- at some cost -- to cope with or adjust to such changing trends.

2. Indeed, a persistent problem for economic intelligence is the need to persuade policymakers that potential problems are not perceived as crises. A classic example is the perennial policy concern about US mineral supply dependence, which, we point out year after year, can be easily dealt with by market forces, reinforced by prudent stockpile policies. Even the frightful strains that have been put on the international monetary system by two successive oil price surges have been remarkably readily absorbed by a combination of domestic adjustment policies, imaginative private recycling modes, and official aid. A small list of most seriously affected LDCs do, of course, remain on the sick list and their specific problems need to be assessed, but with reasonable economic recovery in the OECD countries, their fortunes, too, should take an upward turn.

3. Having said this, we must nevertheless acknowledge that the available adjustment mechanisms are now rather tautly strung, and may not be able to cope well with additional burdens. Examples of possible short-to-medium term trends -- some counterintuitive -- that deserve some attention are:

Persistent OECD Stagnation

- ° A persistence over more than a year or so of the present recession in the OECD countries, with little relief from unemployment and inflation. There would have to be some kind of crisis of confidence to distort the normal oscillations of the business cycle in this way, but it would create serious domestic political situations in all OECD countries and make bitter market struggles, and protectionist policies all but inevitable.

Implications of Continued Japanese Export Surpluses

- ° A stubborn unwillingness (or incapacity?) of Japan to restructure its economy to render it more receptive to foreign imports and investment so as to redress its periodic mammoth export surpluses that impose such severe BoP burdens on the rest of OECD. We are in for such a cycle in 1982, and the consequences for Japan-OECD relations are troublesome.
- ° A growing public perception that the current oil price plateau and the beginnings of a real-price decline are secular rather than cyclical phenomena -- i.e., a supply-demand balance has been struck, leaving substantial amounts of oil production capacity unutilized. For this to be true, we would have to assume that the momentum of oil conservation continues in spite of the diminishing price incentive and that oil consumption does not rise sharply with resurgent economic activity. But the consequences of such a development would be dramatic, not merely for the economic fortunes of the OPEC surplus producers, the resource-constrained producers and the consuming countries, but for the political and strategic environment as well. A widespread belief that the oil market will continue to be glutted could, of course prove to be wrong. Hence, we must also look at

Consequences of Another Oil Supply Disruption

- ° Another sudden upsurge in oil prices, precipitated at some point by a significant supply interruption contingency. If that were to occur within the next year or two, i.e., before the international system has been able to digest fully the last crunch, the consequences could be profoundly depressing.

4. To make such speculative exercises useful, however, the environment in each instance would have to be laid out in considerable detail, and a large number of variables specified with care. Contingencies of the sort listed here are complex action-reaction systems which can be easily mis-specified and, therefore, misinterpreted. Such undertakings are probably more productive in exploring possible impacts on particular countries or situations than in illuminating the grand, global design.

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